

The Complete Guide to Getting an SBA Loan for Your Small Business The Basics Types of SBA Loans How to Get an SBA Loan In Closing Are you looking to obtain an SBA loan for your business? The process may seem complex and frustrating, at times, but the result is often worth the wait. In this complete guide, we'll cover the following: The definition and terms of an SBA loan The different types of SBA loans How to determine your eligibility How to find a provider The paperwork necessary for your application How to complete your application How your application is processed These essential guidelines will make it easier for you to seek, apply for, and secure an SBA loan that will contribute to the future of your business. The Basics A Small Business Administration loan – also known as an SBA loan – is one of the best ways to finance a small business. These loans are guaranteed by the federal government, allowing lenders to offer flexible terms, low interest rates, and unique benefits. Obtaining an SBA loan can help you grow your business without going into serious debt. As of 2016, the average SBA loan amount was \$375,000. The SBA can guarantee anywhere from 75% of each loan totaling more than \$150,000 to 85% of each loan totaling less than \$150,000. Business owners may choose to apply for an SBA loan to finance a new location, hire more effective employees, or refinance an existing loan. Whatever the case, an SBA loan is nearly always more manageable for the average borrower than other financing options. Interest Rates As long as lenders meet SBA regulations, they can set interest rates based on the prime rate, plus a markup known as the “spread.” As of December of 2017, the maximum interest rate for a \$50,000+ loan with a term of less than seven years was 6.75%. At the same time, the maximum interest rate for a \$50,000+ loan with a term of more than seven years was 7.25%. Your annual percentage rate may differ from your interest rate, since the annual rate includes all fees you've incurred in addition to the interest rate. In short, your interest rate can vary based on the lender you choose, but you'll never see the skyrocketing rates that lenders without SBA options require. Indeed, some annual percentage rates for non-SBA loans can reach triple digits. Repayment Terms Another perk of obtaining an SBA loan is the amount of time you have to pay it back with little or no penalty. The term of your loan will depend on how, exactly, you intend to use the money. According to the SBA: Money used for working capital or daily operations may have a seven-year term Money used for new equipment purchases may have a ten-year term Money used for real estate purchases may have a twenty-five-year term The longer your term, the lower your interest rate and the lower your monthly payments. This rare combination makes it possible for you to invest in your business even while repaying your loan. Guarantees There are two guarantees involved in every SBA loan – personal and federal. The SBA requires a personal guarantee from every business owner with at least a 20% ownership stake, along with others who hold top management positions. When you make a personal guarantee, you offer personal assets as collateral, in case your business can't make regular payments. While lenders provide the funding for an SBA loan, the federal government guarantees a certain amount, up to \$3.75 million. This means, if you can't pay back your loan, the federal government will pay the lender. Because the government offers this guarantee, lenders are more likely to offer longer repayments terms, lower interest rates, and lower monthly payments. Types of SBA Loans There are four major types of SBA loans. Here, we've outlined the details and uses of each option: Flagship

7(a) Loans The most common type of SBA loan is called an SBA 7(a) loan. Under this loan, also known as the “flagship” loan program of the SBA, the federal government will guarantee loans totaling \$5 million or less. These funds must be used for working capital, expansion, or equipment purchases. They can be processed through credit unions, specialized lenders, and banks. In most cases, when someone refers to an SBA loan, they are referring to this flagship program. While we outline the other programs below, the remainder of our guide will focus primarily on SBA 7(a) loans.

The 504 Loan Program Like 7(a), this program guarantees loans totaling \$5 million or less. However, funding should be used to buy land, machinery, or facilities. In other words, owner-occupied commercial real estate. These loans can be processed through private-sector lenders and nonprofits.

Microloans If you choose to apply for a microloan, you likely need less cash than your 7(a) counterparts. Under this strict loan program, the federal government will guarantee loans totaling \$50,000 or less. Funding should be used for working capital, inventory, equipment, or business start-up fees. If you want to start a new business, this could be the SBA program for you. However, securing a lender can be difficult, since most microloans are processed through community-based nonprofits that require a detailed business plan for approval.

SBA Disaster Loans Finally, there are SBA disaster loans, which are used to fund small business owners affected by natural disasters and other emergencies. Each loan totaling \$2 million or less is guaranteed by the federal government, and most applications are processed directly through the SBA – though you can receive your loan through a traditional institution.

How to Get an SBA Loan

Step 1: Determine Your Eligibility Before you can apply for an SBA loan, you should determine whether your business is eligible. Otherwise, you may waste your time on a lengthy application process, only to have it end in rejection. There are several requirements, both general and federal-based, that you should meet for consideration. Here, we’ve outlined them in detail:

Your Credit Score This general requirement is the same for all primary business owners. You must have a credit score of 680 or more. Contrary to popular belief, you can check your credit score as frequently as you wish, without negatively affecting your result, by visiting websites like Credit.com and Credit Karma.

Obtaining a Down Payment If you plan to use the money from your SBA loan to purchase a new business or commercial real estate, you’ll need to secure a 10% minimum down payment before approval. The majority of other ventures don’t require a down payment. Still, you’d be wise to have money on-hand, which can help with initial payments and fees.

Providing Collateral In order to obtain an SBA loan, you must offer a personal guarantee in the form of collateral. While your loan doesn’t need to be 100% collateralized – meaning you don’t need to offer personal assets worth the full amount of the loan – the more collateral you bring to the table, the easier your loan will be to get approved. It’s important to note that your lender doesn’t walk away with your collateral at signing. This guarantee is only required in case you aren’t able to make payments somewhere down the line.

Showcasing Your Experience If you want to be seriously considered for an SBA loan, your business should be older than two years. While start-up businesses can obtain an SBA 7(a) loan, the process is far more complex. Not only will you need to meet the requirements listed here, but you may need to:

- Guarantee additional personal collateral
- Show you’ve made a significant investment of personal savings

into your business Highlight prior management experience in a comparable industry Choose a business or industry that is currently underserved Even if you meet all of these expectations, you'll find microloans are often better-suited to your needs as a new business owner. Owner-Occupancy and Debt Obligations If you wish to obtain a commercial real estate loan, the land must be 51% or more owner-occupied. Put simply, you can't purchase land or property with an SBA loan if someone else already occupies the majority of it. You should also consider your debt obligations. If you have any delinquencies or defaults on obligations to the United States federal government, even student loans, you will not be approved for an SBA loan. Finally, and more importantly, your business must be profitable.

Program Requirements Now, we can begin to discuss the requirements put in place by the federal government. You must own a small business as defined by the SBA, which means you cannot employ more than 500 workers and you cannot earn more than \$7.5 million in annual sales You must be engaged in an eligible industry, which includes most non-vice and non-speculative businesses You must be a for-profit company either doing business or intending to do business in the United States You must have used alternative financial resources before seeking an SBA loan, including personal assets and liquidated savings You should be able to show you have a direct need for the loan Your intention for the loan money should be financially and professionally sound You must create or retain jobs, in addition to meeting public policy goals set by the SBA If you meet all of these general and federal requirements, it's time to start the second step of the application process.

Step 2: Find a Provider Now that you understand your eligibility, you can begin to seek a provider for your loan. For the nearly every SBA loan program, prospective borrowers have several options. Going Direct You may choose to find a direct lender that supplies SBA loans on a regular basis. There are many benefits to selecting such a provider, including the ease of application and the convenience of working with a lender that already knows how to cope with unique circumstances. Examples of direct lenders include traditional banks and credit unions, among other institutions. Before going direct, make sure your chosen lender is part of the SBA Preferred Lender Program. These lenders have extensive experience and proven track records. As such, they've been given more leeway by the federal government to process loans quickly and efficiently. Before selecting a lender, it can be wise to ask the following questions: What are your internal policies on personal collateral? What kind of down payment, if any, will I need? What reasonable interest rates can you offer for my loan? How long will approval take for my application? What is your total SBA loan volume? The answers to these questions will give you a clearer picture of the lender you've chosen to work with.

Using a Broker Perhaps you'd prefer to use a broker, rather than a direct lender. Brokers often have a strong understanding of which lenders are most likely to approve your loan, based on your personal circumstances. Your broker can also help you decide how best to present your request, giving you a better shot at approval. In addition, a broker can coordinate document requests and important communications. You've gotten yourself a help middleman. Still, your middleman will be interested in a cut of the profit. Here are some questions you should ask to ensure you've chosen the right professional for the job: How are you paid? How much do you charge? When is payment due? How many lenders are you familiar with? How many loans have you closed?

How many businesses like mine have you partnered with? How long with the application process take? If your potential broker can't answer these questions, you're better off going direct.

Choosing Between Banks, Microlenders, and Online Lenders

There are three major types of SBA lenders, including banks or credit unions, microlenders, and online lenders. A bank, credit union, or other traditional institution should be used when you can provide collateral, you have good credit, and you don't need fast approval. Funding can take anywhere from two to six months. On the plus side, these institutions will usually offer the lowest interest rates in return for your patience. Microlenders are used when business owners can't get a traditional loan because their company is simply too small. These lenders are nonprofits that typically offer less than \$35,000 per loan. You'll find the interest rates are quite higher and the requirements strict. Still, these lenders are helpful for companies that don't qualify for flagship SBA loans due to limited operating history, poor credit, or little collateral. Finally, there are online lenders. These lenders are helpful when you don't have collateral, you don't have much business experience, and you need funding now. Your loan amount may range from \$500 to \$500,000. The average annual percentage rate varies from 7% to 108%, entirely dependent upon the lender, the size of the loan, your credit history, and your level of collateral. Online lenders are convenient but aren't able to compete with the low interest rates available at traditional institutions. Still, for many business owners, the near-immediate approval offered online is worth it.

Step 3: Gather Paperwork

Now that you've chosen your lender, you'll need to collect the necessary documentation for your application.

Required Documentation

The major documentation required for a successful SBA loan application includes:

- Business Financials
- Proof of Ownership
- Loan Application History
- 2 Years of Business Tax Returns
- 2 Years of Personal Tax Returns
- Personal Financial Statement
- Your Resume
- Your Business Overview and History
- Your Business Lease
- Your Business Certificate or License
- The Loan Request Amount
- Detailed Allocation of Potential Funding
- YTD Profit and Loss Statement
- YTD Balance Sheet
- 3 Years of Projected Financials

Buying an Existing Business If you wish to purchase an existing business, you'll also need:

- Acquisition YTD Balance Sheet
- Your Purchase Agreement
- 2 Years of Acquisition Business Tax Returns

Buying Commercial Real Estate Finally, if you wish to purchase commercial real estate with your SBA loan, you'll need:

- Property Appraisals
- Real Estate Purchase Agreement
- Remodeling Plans

All of this required paperwork is used to show your lender that your company has been properly managed and, therefore, has a strong potential to be profitable.

Step 4: Complete Your Application

Finally, after much preparation, the time has come to complete your SBA loan application. While your application may vary based on your lender, each requires certain basic information, including:

- Ownership Breakdown
- Management Experience
- Potential Funding Breakdown
- Loan Repayment Plan
- Your Business Profile
- Your Executive Summary

Additional Forms

Before your loan can be approved, there are certain forms you'll need to complete. Like the other requirements for your application, these forms can vary based on your lender. The most frequently needed forms include:

- SBA Form 1919 – Used for all flagship loans. This form is used to outline your basic borrower information.
- SBA Form 912 – Used to evaluate your character through a lengthy statement of personal history. Lenders use this information to determine how likely you are to repay your loan.
- SBA Form 413 – Used to

determine your personal financial standing, the financial standing of your spouse, and the financial standing of anyone who is a proprietor of your business. SBA Form 159 – Used to disclose fees and compensation, if you’ve chosen to hire someone to help your SBA loan application. This person could be a broker or another industry professional. After completing your forms and gathering all necessary supporting paperwork, you’ll need to meet with your lender to finalize your application. At this point, you no longer have control over your application. You are simply required to wait until your lender has purchased the loan forward.

Commercial Real Estate Requirements If you have an interest in commercial real estate, you’ll need all of the forms and requirements outlined above. However, you’ll also need:

- Rent rolls for all tenants living on the property you intend to purchase
- A professional appraisal, which is typically ordered by your lender after your application has been approved
- A study conducted to find potential environmental issues around the property you intend to purchase
- A detailed list of ongoing maintenance expenses, and how you intend to handle these costs
- A report on the overall condition of the property you’d like to purchase

Step 5: Understand Your Timeline You’ve submitted your application. You’ve supplied all of the required documentation and paperwork. Now, what? There are a few more steps you can expect, should your application go through.

The Letter of Intent Once you’ve submitted a complete application, you can expect to hear back within one to three weeks. Assuming your lender is interested in moving forward with your SBA loan, you’ll receive an initial proposal, also called a Letter of Intent. This letter will outline your qualifications and what you can expect in terms of rates and length. If you find the offer reasonable, you’ll need to return a signed copy of the Letter of Intent to your lender as quickly as possible. Depending on your lender, you may also be required to provide a small deposit at this point.

Underwriting Now that you’ve signed your Letter of Intent, the formal underwriting process will take, on average, two to four weeks. During that time, your lender may have additional questions about finances, your intentions for your loan, and other important documentation.

The Letter of Commitment Assuming the underwriting process is completed uneventfully, you’ll receive a letter of commitment, which outlines the direct terms of your loans and what steps you need to take in order to officially close. In order to accept this letter, you’ll typically need to put down another deposit. This deposit is usually \$5,000 or 5% of your total loan. If your loan requires a down payment, your deposit will count toward it.

Closing the Loan Finally, the closing process begins. During this process, the terms of your loan are finalized. The length of time it takes to officially close an SBA loan can depend entirely on the complexity of your deal, how familiar your lender is with SBA loans, and how much third-party work is needed. At the end of the process, you’ll sign your loan agreement, pay all closing costs, and receive the disbursement of your loan.

In Closing Applying for an SBA loan can be tricky and complicated. It can take a significant amount of time, and perhaps disrupt your daily operations. Still, these loans have proven helpful to thousands of businesses in the United States – and may prove useful to you, too.